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# ECONOMIC TRENDS

## 1986 MID YEAR REVIEW

This Economic Trends provides an overview of the economic situation in Prince Edward Island based on preliminary information for the first half of 1986. The reader should bear in mind that this information is subject to revision and only provides partial insights into the economy.

### 1. National Outlook

Canada's economic performance during the first six months of 1986 has slowed considerably from its strong growth in 1985. Gross Domestic Product[1] in constant 1971 dollars increased by 4.3 per cent in 1985 but has increased at an annual rate of only 2.6 per cent during the first half of 1986. Unlike the previous two years when economists were revising their forecasts upward, economists have increasingly revised downward their outlook for 1986. The precipitous decline in investments in the oil and gas sectors resulting from the collapse of world oil prices and the very slow growth in the United States economy, (0.6 per cent annual rate in the second quarter of 1986), have been major contributors to the slower growth for Canada in 1986. Employment gains have been virtually non-existent since January of this year when the level of employment, seasonally adjusted, for Canada was 11,632,000. As of June 1986 the seasonally adjusted employment level was 11,663,000, representing an increase of only 31,000 since January. The national unemployment rate which averaged 10.5 per cent 1985 has, seasonally adjusted, averaged 9.7 per cent during the first half of 1986.

Consumer spending has been the driving force behind the economy in 1986 in spite of federal sales and income tax increases. Residential housing investment continues strong and consumers have reduced savings in order to finance their extra spending. The savings rate in Canada has fallen to its lowest level since 1977, as the savings rate reached 11.2 per cent in the second quarter of 1986.

1 Statscan is changing its definition for overall economic activity to Gross Domestic Product, G.D.P., from Gross National Product, G.N.P.

The rate of inflation continued to hover around the 4 per cent level. The consumer price index increased by 4.1 per cent during the first half of 1986 compared to 4.0 per cent throughout 1985 and 4.4 per cent in 1984.

The fall in oil prices, while bringing economic hardship upon the oil and gas producing areas of the country, is a boon to oil consumers. Gasoline prices across Canada in June were 13.4 per cent lower than they were in June 1985. Regionally, Alberta, with its heavy reliance on the petroleum and gas industries, experienced a decline in employment of 14,000 from January to June this year and a drop in investment intentions of $400 million. Ontario, on the other hand, experienced an increase in employment of 37,000 from January to June and a dramatic increase in investment intentions of $5,100 million.

## 2. Prince Edward Island

The seasonally adjusted level of employment in the first half of 1986 averaged 51,000, down from the level of 51,300 recorded during the first half of 1985 but above the 50,700 in the second half of 1985. Diagram 1 shows the improved quarterly employment picture during 1986. This is a reversal from the

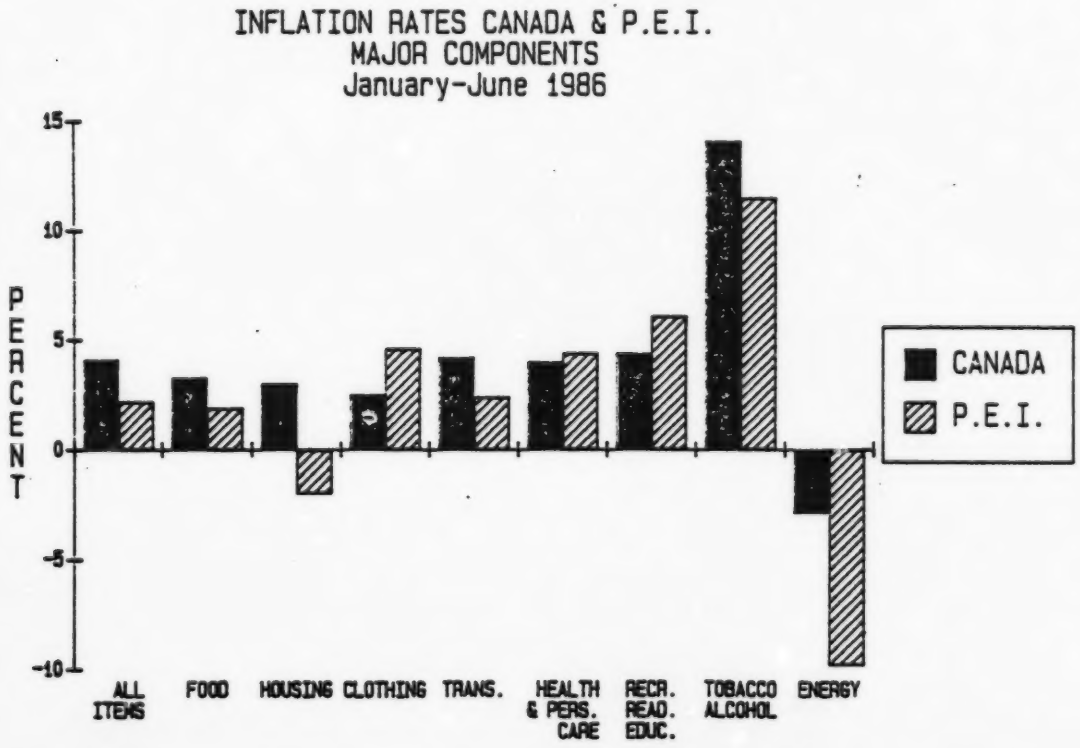
Diagram 1

downward trend in employment experienced during the second half of 1985 when employment fell from a seasonally adjusted high of 52,000 in the second quarter to only 50,000 in the fourth quarter of 1985. The seasonally adjusted unemployment rate in Prince Edward Island increased slightly during the first six months of 1986 relative to the first half of 1985, from 13.1 per cent in 1985 to 13.3 per cent in 1986. A decline in the labour force participation rate moderated the growth in the labour force and the consequent rise in the unemployment rate. The number of unemployment insurance beneficiaries increased by 200 to an average monthly level of 15,000 during the first half of 1986.

## CONSUMER PRICES

Prince Edward Island has experienced the lowest average rate of increase in consumer prices during the first half of 1986 of all Canadian provinces. The Charlottetown-Summerside consumer price index increased by 2.2 per cent during the first half of 1986 over the corresponding period of 1985 compared to the national average of 4.1 per cent. Diagram 2 below shows the percentage increases in the major components of the consumer price indices for Charlottetown-Summerside and Canada during the

Diagram 2



first six months of 1986. The Energy component of the consumer price index declined much faster in Prince Edward Island over this period than it did nationally[2]. Average energy prices fell by 9.8 per cent on the Island while declining by only 2.9 per cent nationally. Food prices on average increased by only 1.9 per cent during the first six months of 1986 in Prince Edward Island, again lower than the national average which increased by 3.3 per cent for food.

## INCOMES

Available information concerning income growth during the first half of 1986 suggests a modest improvement over the performance of 1985. In the context of declining inflation, such gains have boosted real income growth in 1986.

Total wages and salaries paid to Islanders increased during the first five months of 1986 by 5.5 per cent to a total of $266 million. This compares with the 6.6 per cent increase realized in the same five months of 1985. The Industrial Aggregate wage and salary per worker was $348 per week for the January to May period in 1986 compared to $341 in 1985. Unemployment insurance benefits totalled $71.3 million for the first half of 1986 compared to $63.5 million for 1985, representing an increase of 12.2 per cent.

Realized Net Farm Income for 1986 is expected to total $24.5 million, down slightly from the $29.9 million realized in 1985. This is indicative of the weak agriculture sector; realized net farm income was $41.2 million in 1983 and $52.3 million in 1984. Final results for farming hinge on the value of this year's potato harvest, which is not yet known. Income from fishing is up substantially in 1986 helping boost income gains.

## EXPENDITURES

Retail sales totalled $258.6 million for the period January to June in 1986 which represents a 3.4 per cent increase in sales over the 1985 level of $250.2 million. New motor vehicle sales for the January to May period reached a value of $30.8 million in 1986 compared to sales worth $29.2 million in that period last year. The number of new vehicles sold, however, declined for the second year in a row. The number of units sold totalled 2,567 which represents a modest decline of 1.4 per cent. During the same period in 1985, the number of units sold declined by 5.9 per cent.

[2] Energy is a sub-component of the Housing, Transportation, and Recreation, Reading and Education components of the consumer price index.

Tourist parties increased by 5.2 per cent in 1986, for the period May 15 to June 30, with the number of American parties up by 31 per cent over the same period in 1985. The decision by Americans to take their vacations in their own backyard and the low value of the Canadian dollar appears to have encouraged more Americans to visit Canada and, in particular, Prince Edward Island.

The mid year outlook for public and private investment expenditures indicates that $358.2 million will be spent on machinery and equipment and construction activity in 1986 compared to $344.7 million in 1985; an increase of 3.9 per cent.

## AGRICULTURE

Farm cash receipts totalled $74.5 million for the period January to June 1986 compared to $89.7 million during the same period in 1985. Declines in cash receipts were realized for potatoes, $15.4 million, tobacco, $0.5 million, and hogs, $0.4 million. Receipts from the provincial income stabilization program for hog producers were also lower during this period. From January to June, the income stabilization program paid out $1.1 million less in 1986 than in 1985, reflecting improved prices for hogs.

Estimates of the 1986 potato acreage put the level at 70,000, a decline of 6,000 acres from 1985's level. Total Canadian acreage is down by 4.6 per cent while the U.S. acreage is down an estimated 9.4 per cent.

## FISHING

Fish landings were up during the first half of 1986 over the same period of 1985 for all major fish groups except for Irish Moss. Lobster landings increased by 36.6 per cent to a level of 14.4 million pounds, worth an estimated $31.5 million. The first season catch for lobster nearly surpassed the record value and near record volume of the entire 1985 catch. The average price paid for groundfish and shellfish (other than lobster) increased significantly and was complemented by higher landings. The total value of all fish landings was $38.7 million in the first half of 1986 compared to $30.3 million in 1985.

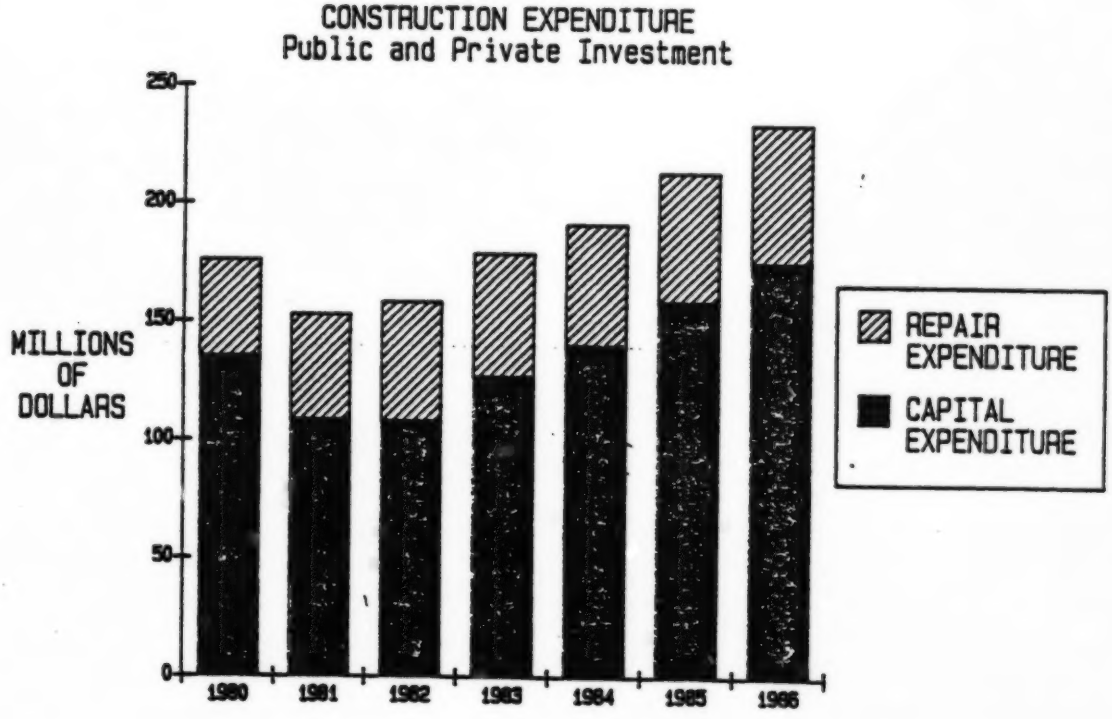
## MANUFACTURING AND CONSTRUCTION

The value of manufacturing shipments marginally increased during the January to June period to $148.4 million compared to $144.2 million over the same period in 1985. The average monthly level of employment in manufacturing during the first five months

of 1986 remained unchanged from its corresponding 1985 level of 2,700.

Both residential and non-residential construction activity continued at a high level during the first six months of 1986. Housing starts during the first half of 1986 totalled 552 compared to 278 during 1985. The Atlantic Veterinary College was the major non-residential construction project. With classes set to begin in September 1986, the College is expected to be completed in 1987. Diagram 3 shows the revised intentions for Public and Private Investment. Non-residential construction

Diagram 3




activity is expected to total $150.8 million in 1986 compared to $141 million in 1985 while residential construction is expected to total $83.8 million in 1986 compared to $72.9 million last year.

## 3. Summary and Conclusion

In Prince Edward Island, consumer spending continues to outpace the consumer price index. Tourism is showing impressive gains and fishing is poised to record its best year ever. Construction activity has improved. The prospects for agriculture are improving and employment has regained its positive momentum. With its heavy reliance on oil, Prince Edward Island is expected to be a major benefactor from lower oil prices. Both individuals and producers should benefit. However in spite of this rosy outlook, overall economic activity in Prince Edward Island is expected to continue to grow more slowly than the national average.